



Jerry E. Abramson  
Mayor

26 Member  
Metro Council

The Office of Internal  
Audit provides independent,  
objective assurance and  
consulting services  
that adds value to and  
improves Louisville  
Metro Government.



# Office of Internal Audit

2003 Annual Report

January 2004

# Annual Report



## Office of Internal Audit

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JERRY E. ABRAMSON  
MAYOR

KELLY DOWNARD  
PRESIDENT, METRO COUNCIL

LOUISVILLE, KENTUCKY  
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA  
CHIEF AUDIT EXECUTIVE

### **Transmittal Letter**

January 27, 2004

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall

#### **Subject: 2003 Annual Report**

Dear Mayor Abramson,

Enclosed is the 2003 Annual Report for the Office of Internal Audit. This summarizes the services provided during calendar year 2003. The Office of Internal Audit's Charter requires the presentation of this report within 30 days of the calendar year-end.

I do not have to tell you that 2003 was unlike any other year. It was certainly challenging, and there is still plenty of work to do. Merging two entrenched business cultures into a new entity takes time, and an incredible amount of energy and persistence. However, tremendous progress has been made in building a government that is responsive and accountable to its citizens. Some of the highlights from this past year include:

- A new charter for the Office of Internal Audit was implemented. This outlines the responsibilities and duties for the office within Louisville Metro Government. The charter is in the form of an ordinance that was passed by the Metro Council.
- A risk-based audit plan was prepared and implemented for the new government. This focuses audit resources on enterprise-wide activities, former County Agencies, and departments that were minimally impacted by merger. This approach supports the philosophy of adding value and getting more "bang for the buck".
- Efforts have been made to educate new Cabinet Secretaries, Agency Directors, Council Members, and others unfamiliar with internal auditing. The focus has been the services and benefits provided, so that partnering / cooperative relationships develop. This proactive approach helps diminish adversarial attitudes that are sometimes associated with internal auditing.

- A contract with an information technology consultant has been awarded. This provides IT auditing services of the major enterprise applications (i.e., PeopleSoft, LeAP, Midas). This is designed as a cosourcing arrangement, so that the consultant augments the Office of Internal Audit's skill sets. This approach maximizes the IT audit resources, and allows for obtaining the technical skills needed for a particular IT system.

The listing of activities is sorted by Department, and then by the particular area / focus. Not all of the activities are complete, and some are pending action by others. Unless noted, the Departments have been responsive to our recommendations. However, some recommendations may not yet be fully implemented. The type of core service provided is noted. A brief definition of these core services is as follows:

- **Assurance** - Reviewing operations, policies, and procedures to ensure that the appropriate control structure is in place and that business risks are considered.
- **Consulting** - Providing services to help address specific issues and concerns, which may not necessarily be high-risk, but do add significant value to clients.
- **IT Audit** - Ensuring that electronic information is processed as intended, data integrity is maintained, and the control structure is assessed.
- **Integrity Services** - Investigating allegations regarding employee misconduct and / or non-violent criminal acts involving Metro government resources.

I look forward to continuing providing services that help ensure a responsive, accountable government. If you have any questions, or would like to discuss this report in more detail, please let me know.

Respectfully submitted,



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Members  
Deputy Mayors  
Cabinet Secretaries

# Annual Report

## Calendar Year 2003

Agency / Area	Status	Issues	Core Service
<b>Brightside</b>			
<b>Fiscal Administration</b>	Complete	Monitoring of activity; file management; documented policies and procedures.	Assurance
<b>Business Services</b>			
<b>Bond Application Fees</b>	Complete	Inadequate segregation of duties; efficiency of bond files; documented policies and procedures.	Assurance
<b>Council</b>			
<b>10th Street Cardinals Grant</b>	Ongoing	Monitor court-ordered restitution payments to ensure properly received; for 2003 approximately \$3,120 was received, leaving a balance of \$7,300.	Integrity
<b>Cellular Telephones</b>	Ongoing	Reimbursement of cellular charges for business calls on personal telephones.	Consulting
<b>Fiscal Administration Guidance</b>	Complete	Provided "best practices" guidelines for business administration.	Consulting
<b>Hillebrand House Grant</b>	Complete	Funds appropriated have not been released / paid by Housing; any changes to work program budget would most likely have to be approved by Council if change involves different property.	Consulting
<b>Living Wage</b>	Complete	Provided data and analysis for Living Wage Ad-Hoc Committee.	Consulting
<b>Louisville Central Community Center Grants</b>	Ongoing		Consulting
<b>Wyandotte Athletics Grant</b>	Pending	Adequate documentation of grant expenditures could not be obtained. Assistance of County Attorney requested in recovering entire \$40,000.	Consulting

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>County Attorney</b>			
<b>Delinquent Tax Payments</b>	Complete	Process for collecting / posting of taxes by County Attorney (responsibility transferred from Revenue Commission); interim solution implemented, but for long-term County Attorney needs system capability.	Consulting
<b>Facilities Management</b>			
<b>Maintenance and Repair Contract</b>	Complete	Contract compliance hindered by multiple agency administration; files do not contain adequate information; no documented functional policies and procedures.	Assurance
<b>Finance and Budget</b>			
<b>Financial Policies and Procedures</b>	Complete	Reviewed draft policies and procedures to ensure risks are properly addressed and mitigated as needed.	Consulting
<b>Housing Loans - Payments</b>	Complete	Posting of balloon payments in Finance resulted in loan recipient's records not reconciling to confirmation; inquired at request of loan recipient's accountant.	Consulting
<b>Jefferson County Bank Reconciliations</b>	Complete	Documented Jefferson County procedures in order to understand process.	Consulting
<b>Jefferson County Payroll Cycle</b>	Complete	Documented Jefferson County procedures in order to understand process.	Consulting
<b>Jefferson County Purchasing Cycle</b>	Complete	Documented Jefferson County procedures in order to understand process.	Consulting
<b>Jefferson County Revenue Cycle</b>	Complete	Documented Jefferson County procedures in order to understand process.	Consulting
<b>Jefferson County Travel</b>	Complete	Documented Jefferson County procedures in order to understand process.	Consulting
<b>Parking Facility Management (County Garages)</b>	Complete	Monitoring of fiscal activity; missing/inadequate documentation; deposits not in accordance with policy.	Assurance



Agency / Area	Status	Issues	Core Service
<b>Finance and Budget</b>			
<b>Printing Contract</b>	Complete	Printing contract was complied with, but contract language itself was problematic.	Consulting
<b>Tax Verification (Quietus)</b>	Complete	Reviewed process for tax verification for Sheriff's quietus; recommendations made to increase efficiency in Finance's review process.	Consulting
<b>Telecommunications Franchise Fee</b>	Complete	Settlement amount of \$300,000 not collected; inadequate monitoring; efficiency of revenue management; NOTE: \$300,000 collected from cable company in May 2003.	Assurance
<b>General Local Government</b>			
<b>40-hour Workweek Conversion</b>	Complete	Overall conversion appears accurate; some monitoring/verification issues; former County leave time management system limits ability to ensure accuracy of balances.	Consulting
<b>Accounts Payable</b>	Complete	Reviewed City Government payments for period ending December 2002 (end of entity).	Assurance
<b>Donations</b>	Complete	Financial system can not be relied upon to identify non-monetary donations; no procedures to compile reports.	Assurance
<b>Enterprise Applications - LeAP</b>	Ongoing		IT Audit
<b>Enterprise Applications - Midas</b>	Ongoing		IT Audit
<b>Enterprise Applications - PeopleSoft</b>	Ongoing		IT Audit
<b>External Agency Grants Task Force</b>	Complete	Participated as ex-officio member of task force, with particular emphasis on post-award monitoring of grant activity.	Consulting
<b>HIPAA Committee</b>	Ongoing	Participate as ex-officio member of committee.	Consulting
<b>LeAP Financial System Steering Committee</b>	Ongoing	Participate as ex-officio member of steering committee.	Consulting

Agency / Area	Status	Issues	Core Service
<b>General Local Government</b>			
<b>Payroll / Overtime Data</b>	Complete	Provided payroll and overtime data, including overtime as percent of gross pay, from calendar year 2002.	Assurance
<b>PeopleSoft Steering Committee</b>	Ongoing	Participate as ex-officio member of steering committee.	Consulting
<b>Procurement and Contracting Process</b>	Complete	Provided testimony for Metro Council's Contracts Committee.	Consulting
<b>Professional Service Contracts</b>	Complete	Compiled population of Professional Service Contracts awarded by City for fiscal year 2002.	Consulting
<b>Sick Leave Usage Data</b>	Complete	Provided sick leave usage and buyback data from 2002.	Consulting
<b>Vacant Lots</b>	Ongoing	Participate in Metro Solutions workgroup addressing vacant lot issues.	Consulting
<b>Vendor Payment Analysis</b>	Complete	Provided Fiscal 2002 vendor payment data regarding payment timeliness by Agency, number of checks issued to vendors, etc.	Consulting
<b>Health</b>			
<b>Billing and Collection Division</b>	Complete	Computer system does not function as an effective billing and collection system; duplicative and manual processes; some billings not processed; monitoring and reconciliation; segregation of duties; documented functional policies and procedures.	Assurance
<b>Childhood Lead Grant</b>	Pending	Program Coordinator perpetuated fraudulent activity and was charged; audit noted questionable costs of approximately \$97,400; Centers for Disease Control should ultimately determine allowable activity.	Integrity
<b>Immunization Team</b>	Ongoing	Employee admitted theft of approximately \$500 and was charged.	Integrity
<b>M.O.R.E. Clinic - Revenue</b>	Ongoing		Assurance
<b>Management Review</b>	Complete	Lack of overall vision; assessment of services provided; strained management relationships.	Assurance

Agency / Area	Status	Issues	Core Service
<b>Health</b>			
<b>Payroll</b>	Complete	Assisted in determining feasibility of converting to PeopleSoft payroll system earlier than scheduled.	Consulting
<b>Smoke Free Louisville Coalition</b>	Complete	Health Department funds used / budgeted for Smoke Free Louisville Campaign were identified; no requirement to segregate activity so no way to independently identify funds; no opinion as to completeness of data provided.	Consulting
<b>Housing</b>			
<b>Handicapped Ramp Program</b>	Ongoing	Inconsistencies in processing / review of applicant, can not determine if eligible for program; appears contractor acted in accordance with instructions from Metro Government employee, but violated contract.	Integrity
<b>Investor Rehab</b>	Complete	Employee on payroll of developer; conflict of interest with official duties; employee terminated.	Integrity
<b>Landbank</b>	Complete	Ancillary checking account used was not approved in accordance with policy; lack of oversight for property sold.	Assurance
<b>Rehab Program</b>	Pending	Allegations of illegal activities referred to FBI.	Integrity
<b>Human Resources</b>			
<b>Fraud Awareness Training</b>	Ongoing	Developed training program for Metro Government Managers and Supervisors; provide training in conjunction with HR.	Consulting
<b>Health Insurance Self Funding</b>	Complete	Discussed procedural issues to ensure proper accountability in new process.	Consulting

Agency / Area	Status	Issues	Core Service
<b>Human Resources</b>			
<b>Personnel Policies and Procedures</b>	Complete	Reviewed draft policies and procedures to ensure risks are properly addressed and mitigated as needed; formal fraud policy recommended and draft provided.	Consulting
<b>Human Services</b>			
<b>Emergency Assistance Fund</b>	Ongoing		Assurance
<b>External Agency Grants - Fiscal Monitoring Training</b>	Complete	Provided fiscal monitoring training for program monitors.	Consulting
<b>Inspections, Permits and Licenses</b>			
<b>Code Enforcement (Jefferson County)</b>	Complete	Charges do not agree to approved ordinance rates; monitoring; funds not adequately secured; no documented functional policies and procedures.	Assurance
<b>Public Protection (Jefferson County)</b>	Complete	Poor cash management and safeguarding of assets; inadequate monitoring and reconciliation of revenue; files do not contain adequate information; no documented functional policies and procedures.	Assurance
<b>Section 8</b>	Complete	Reviewed draft agreement between IPL and Housing Authority for Section 8 services.	Consulting
<b>Vehicle Analysis</b>	Complete	Provided data and analysis of providing government-owned vehicles as opposed to mileage reimbursement for personal vehicles.	Consulting
<b>Kentuckiana Works</b>			

Agency / Area	Status	Issues	Core Service
<b>Kentuckiana Works</b>			
<b>Agency Funding Decrease</b>	Complete	Federal funding decreased approximately 40% - staff layoffs and agency realignment required; participated in reorganization discussions.	Consulting
<b>Welfare to Work Grant</b>	Ongoing	Participate in meetings / discussions with Department of Labor's Office of Inspector General regarding program audit.	Consulting
<b>Mayor's Office</b>			
<b>Fiscal Administration Guidance</b>	Complete	Provided "best practices" guidelines for business administration.	Consulting
<b>Neighborhoods</b>			
<b>Clarksdale Resident Corporation Grant</b>	Pending	Use of funds intended for purchase of computers can not be adequately documented; referred to County Attorney for further action.	Integrity
<b>Parks</b>			
<b>Athletics Division</b>	Ongoing		Assurance
<b>Capital Projects / Olmstead Funding</b>	Complete	Opportunity to improve efficiency through division reorganization; capital budget transfer process vague; donations/commitments not adequately recorded; weak monitoring.	Assurance
<b>Golf Pro / Course Analysis</b>	Complete	Monitoring of activity could be improved to address inherent risks; incorporate best practices in new contracts; complete operating activity not required; reporting could be improved.	Assurance

Agency / Area	Status	Issues	Core Service
<b>Police</b>			
<b>Commanding Officers Foundation</b>	Complete	Provided guidelines for establishing foundation and suggestions on avoiding ethics / conflicts of interest situations.	Consulting
<b>Miscellaneous Revenue Receipts</b>	Complete	Fees do not adhere to ordinance; no documented detailed policies and procedures; weak monitoring.	Assurance
<b>Narcotics Disposal - July 25, 2003</b>	Complete	None.	Assurance
<b>Narcotics Disposal - March 31, 2003</b>	Complete	None.	Assurance
<b>Narcotics Disposal - October 17, 2003</b>	Complete	None.	Assurance
<b>Narcotics Investigative Fund</b>	Complete	Ancillary "off-books" account; files are incomplete; no documented functional policies and procedures.	Assurance
<b>Property Room</b>	Complete	Coordinated with Police personnel to move idle, non-evidentiary items to bank; approximately \$3 million transferred.	Consulting

### **Public Works**

<b>Encroachment and Subdivision Bonds</b>	Complete	Monitoring of activity; missing/inadequate documentation; no documented policies and procedures.	Assurance
<b>Garage Parts Room Operations</b>	Complete	Provided cost-benefit analysis of government managed versus outsourcing of parts room operations.	Consulting
<b>Logan Street Garage - Wreck Repairs</b>	Complete	Contract not being followed; no bids for under \$1,500; no sealed bids.	Consulting
<b>Newburg Road Garage - Wreck Repairs</b>	Complete	Contract not being followed; no bids for under \$500.	Consulting
<b>Professional Service Contracts</b>	Ongoing		Consulting

Agency / Area	Status	Issues	Core Service
<b>Purchasing</b>			
<b>Bid Process (Aiken Road Bridge Project)</b>	Complete	Inquired as to circumstances regarding complaint / injunction and bid.	Consulting
<b>Solid Waste Management</b>			
<b>Waste Management District Revenues</b>	Ongoing		Assurance
<b>Technology</b>			
<b>DBS Inventory</b>	Complete	Provided DBS inventory documentation for use in developing new inventory system.	Consulting
<b>LeAP - Backup tape retention</b>	Complete	Obtained information regarding proper retention times for back up tapes.	Consulting
<b>Youth Center</b>			
<b>State Reimbursements</b>	Ongoing		Assurance
<b>Technology General Controls</b>	Ongoing		IT Audit
<b>Zoo</b>			
<b>Allegation of Employee Misconduct</b>	Complete	Issue was satisfactorily addressed by Zoo officials; no basis for allegation; no further action is warranted.	Integrity